



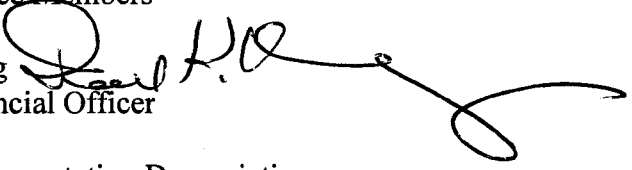
**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

400 Seventh St., S.W.
Washington, D.C. 20590

August 10, 2000

MEMORANDUM TO: Chief Financial Officers
Financial Committee Members

FROM: David K. Kleinberg 
Deputy Chief Financial Officer

SUBJECT: Department of Transportation Depreciation
Standards of Internal Use Software

This establishes the Departmental default policy for the Depreciation Standards of Internal Use Software, as identified in Federal Accounting Standards Advisory Board's Statement of Federal Financial Standards Number 10, Accounting for Internal Use Software.

Internal use software includes the application and operating system programs, procedures, rules and any associated documentation pertaining to the operation of a computer system or program, and may be:

- Purchased commercially, off-the-shelf (COTS). COTS software should be further categorized as either standard office software, or a major long-term application.
- Developed internally (in-house) by federal employees, with or without a contractor's assistance. Internally developed software should be regarded as potentially replaceable by COTS software or potentially replaceable by new in-house or contractor developed software.
- Developed by a contractor. Contractor developed software should be regarded as either potentially replaceable by COTS software or potentially replaceable by new in-house or contractor developed software.
- Acquired from other federal agencies or other sources (freeware, shareware, etc.)

To enable organizations to focus on items of value and importance, we are instituting an internal use software capitalization threshold of up to \$200,000. This threshold is consistent with concepts provided under Section 179 of the U.S. Tax Code, and excludes internal use software from our current default capitalization threshold of \$25,000 for property, plant and equipment.

Capitalized internal use software should be depreciated in a systematic manner over the estimated useful life of the software. This estimated useful life should be based on the expected rate of obsolescence, or 36 months, whichever is less. The obsolescence rate should be based on the *release date* of the product rather than the *purchase or acquisition date*, and should be supported by information in the DOT Capital Programming and Financial Profile database. The 36-month maximum is supported by concepts provided in Section 167 of the U.S. Tax Code.

Bulk purchases of internal use software (e.g. multiple copies of spreadsheets and word processing programs) and modules or components of a total software system that individually meet the \$200,000 capitalization threshold should be capitalized and systematically depreciated over the estimated useful life of the software, or 36 months, whichever is less. The 36-month period should be based on the *release date* of the product rather than the *purchase or acquisition date*. If the per item cost of a bulk purchase does not meet the capitalization threshold, it should be expensed in the period acquired.

Enhancements or improvements to internal use software are defined as instances where significant new capabilities are added and/or functionality is extended. Only enhancements or improvements costing \$200,000 or more should be capitalized. Any enhancement or improvement costing less than \$200,000 should be expensed in the year of purchase.

In instances where enhancements or improvements are capitalized, their costs should be added to the undepreciated balance of the original software. A new depreciation schedule may be set, based on the software's new functional life. This new schedule should not exceed 36 months.

Where replaced internal use software has a salvageable value, the net realizable value (NRV) should be recognized and transferred to an appropriate asset account until the software is disposed of and the amount is realized.

Disclosures required for internal use software are the same as that for general property, plant and equipment. Changes in software depreciation methods should be clearly disclosed in the financial statements.

Operating Administrations wishing to modify this default policy or set additional standards, which better meet the needs of their organization or program, should forward their proposal to the Office of Financial Management for approval.

This policy goes into effect October 1, 2000.

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IMac/mvicks/Revised Policy After ComDoc.Do

Retyped: 8/7/00